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Pine water district offers \$2.17 million for water system

Critic declares 'Water Independence Day' at start of potentially long legal process

By Max Foster

July 7, 2008

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The Pine Strawberry Water Improvement District on July 3 offered Brooke Utilities \$2.17 million for the companies serving the two communities and the Magnolia pipeline connecting them.

The PSWID board, at a special meeting, took the first step in what could be a long and contentious process, with its offer to Brooke Utilities President Bob Hardcastle.

Following the board's decision, local realtor Ray Pugel -- long a critic of the operations of Brooke -- told the 40 people present, "I declare July 3 Water Independence Day in Pine and Strawberry."

His advice to the absent Hardcastle was not to fight the takeover. Peering straight into the audience, he advised Hardcastle to "take the money and go back to California and leave Pine and Strawberry to solve our water problems."

Pugel's comments drew both cheers and laughter.

Brooke Utilities, whose parent company is based in California, has owned the Pine and Strawberry water companies since 1996 when both were purchased from the E&R Water Company.

Once Hardcastle receives the board's purchase offer, he has 20 days to accept, reject or counter offer.

Brooke Utilities spokesperson Myndi Brogdon, who attended the July 3 meeting, said neither water company is for sale, but still could be sold if the right price was offered.

However, she declined to suggest an agreeable price.

If Hardcastle and the PSWID board cannot come to an agreement on the price, the district can begin a legal condemnation process by filing suit against Brooke Utilities.

If that should occur, a trial would be held to decide the fate of the two water companies and to set a price.

Condemnation can go quickly if both sides come to an agreement, but can take years of legal haggling if they do not.

The Town of Star Valley recently started its own condemnation process against another Brooke Utilities company, after Hardcastle rejected the town's \$475,000 offer.

Condemnations of private water companies, while unusual in Arizona, have taken place. In 2006, the town of Cave Creek condemned and ultimately forced the sale of the Cave Creek Water

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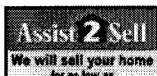
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In Scottsdale, however, the city government's proposal to take over of the Arizona American Water Company is meeting stiff resistance from those who claim the city's use of eminent domain is fiscally irresponsible.

The price PSWID offered Brooke Utilities was the Reconstructed Cost New Less Depreciation, or RCNLD, amount determination by the Valley firm of Coe and Van Loo.

PSWID hired the consultants last month to appraise the two water companies and offer an opinion as to the net market value of both Pine and Strawberry's infrastructure and assets.

Coe and Van Loo project engineer Victor Khoury determined that the RCNLD value was \$2,172,466 and the Average/Reasonable Valuation was \$2.5 million.

The complete findings of Coe and Van Loo will be presented to the board at its July 17 meeting.

During the July 3 board meeting, Chairman Bill Haney offered dollar amount estimates on what he thought it would take to improve the infrastructure of both water companies.

The infrastructure of the companies has long been a bone of contention between Hardcastle and water users who claim he has not done enough to maintain and improve the system.

Haney estimated short-term costs to upgrade the system at \$3.7 million, which would include additional wells, storage, chlorination, an office building and replacement of 10,000 feet of main water line.

Haney said it would take about \$5.3 million over the long-term to drill a third, deeper well, convert PVC pipe to larger sizes and replace ABS pipe.

Sam Schwaim, a critic of the board's attempts to purchase the two water companies, disagrees with some of Haney's estimates including the need to replace 74,000 feet of ABS pipe.

"There is no regulatory requirement to do so," he wrote on his Web site waterforpinestrawberry.com.

ABS, or Aclonitrile Butadine Styrene, are black pipes commonly used for drainage.

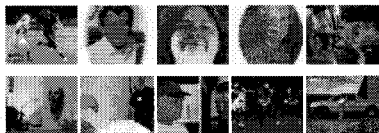
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